

EX-IM BANK SMALL BUSINESS EXPORT CREDIT INSURANCE

SUMMARY

Small businesses that are new to exporting, or that have only occasionally exported, can insure their export credit sales of U.S. products against loss due to nonpayment and develop an effective export promotion program with the Ex-Im Bank Small Business policy. The policy protects against failure of a foreign buyer to pay an obligation because of unforeseen commercial or political reasons. It helps increase overseas sales through the use of prudent credit extension practices.

Protected against loss, an exporter is often able to arrange for more attractive financing and, consequently, able to offer foreign buyers affordable and competitive credit terms. To encourage bank financing, a special agreement has been developed for financial institutions taking assignment of an insured's rights to any amount payable under the policy. If the assignee bank complies with its responsibilities, it will be protected from many defenses to payment of a claim which ordinarily would be asserted.

WHAT IS COVERED

The Small Business policy insures export sales U.S. products or services on a short-term credit basis. Products must be at least 51 percent U.S. content (labor and material) excluding mark-up and certain defense products are not eligible for cover. Short-term sales involve repayment terms ranging from payment upon delivery to payment at 180 days from the date of arrival of the goods at the port of importation. For capital goods, consumer durables, bulk agricultural commodities and fertilizer, repayment terms may be extended up to 360 days. A valid written obligation of the foreign buyer to pay is required on all insured transactions.

TYPES OF LOSSES COVERED

The policy provides coverage on a credit loss resulting from a default by a foreign buyer. The default may be the result of one of the political risks defined in the policy, such as war, revolution, cancellation of an import or export license, or currency inconvertibility, or it may be for commercial reasons. Commercial risks under the policy are considered to be losses arising out of defaults for reasons, such as bankruptcy, other than the specifically defined political reasons.

HOW TO QUALIFY

The Small Business policy is a special program for small financially viable businesses. All companies applying for the policy must meet certain requirements. The applicant, together with its affiliates, must:

- have average annual export credit sales during the preceding two years not exceeding \$3 million;
- be a small business as defined by the U.S. Small Business Administration (SBA); and
- have a positive net worth with at least one year successful operating history; and

In addition, all of the following information is required to be submitted along with an application, form EIB92-50, for quotation:

- a current (not older than six months) credit agency report on the applicant, or \$35 to cover Ex-Im Bank's cost of ordering the report;
- written references from two of the applicant's suppliers and one from its bank;
- financial statements for the applicant's last 2 fiscal years (if an "Enhanced" assignment is desired the statements must be signed, compiled or audited depending on the credit limit requested).

Ex-Im Bank has published its Short-Term Credit Standards (EIB99-09) which may be consulted to determine the likelihood of approval of a policy, a Discretionary Credit Limit, an Enhanced Assignment and buyer credit limits.

HOW THE POLICY WORKS

The Small Business policy insures an exporter's sales to creditworthy buyers in most countries throughout the world. Ex-Im Bank generally requires a company to insure all eligible credit sales under the policy. This ensures a reasonable spread of risk for Ex-Im Bank and prevents an exporter from insuring only transactions considered marginal.

THE PERIOD COVERED

The policy is written for one year, but is cancelable by either party on 30 days written notice. Receivables arising from shipments made during the policy year are covered.

Exporters may remain in the program indefinitely, provided that the company continues to meet the SBA definition of a small business and that annual export credit sales do not exceed \$3 million.

PERCENTAGES OF COVER

Coverage is 100 percent for political risks and 95 percent for commercial risks throughout the life of the policy. There is no first loss deductible for Small Business policyholders.

CREDIT LIMITS

In addition to having an Ex-Im Bank policy in full force, the Insured must submit a Special Buyer Credit Limit (SBCL) application, form EIB92-51, for coverage on each eligible buyer, requesting Ex-Im Bank to establish a revolving credit limit. Once approved, this limit is endorsed to the policy.

When an SBCL is in effect, the insured may ship to that buyer repeatedly and be insured as long as the conditions of the SBCL, and the policy as a whole, are met and the outstanding amount does not exceed the authorized credit limit. For higher amounts, the insured may either request an increase in its SBCL or hold shipment until the buyer pays the outstanding amount. Each SBCL issued carries a final shipment date that limits the length of time Ex-Im Bank's coverage on the buyer is available.

A current credit report on the buyer must be submitted with each application for an SBCL. Current financial statements on the buyer may also be required. All credit and financial information should be dated within one year of the transaction date.

Exporters with significant, satisfactory export **credit** experience may be granted Discretionary Credit Limits which allow them to extend insured credit without prior approval from Ex-Im Bank. See EIB92-18 Extending Credit Under Your Policy for details on how a DCL works.

WHAT THE INSURED AGREES TO DO

Among other things, the insured agrees to submit monthly premium reports to Ex-Im Bank listing all reportable transactions.

The insured also agrees to all of the following:

- not to further insure sales of goods or services to buyers already 90 days or more past due;
- to make written demand for payment upon the buyer no later than 30 days prior to submission of a claim;
- to exercise reasonable care to minimize or prevent losses;
- to refrain from rescheduling due dates without prior Ex-Im Bank approval.

Other agreements are specified in the policy.

PREMIUM RATES

All Small Business policies are endorsed with a rate schedule that states the appropriate premium rate applicable to each eligible shipment. Rates are determined by the length of the credit terms and type of buyer. A one-time advance premium of \$500 is required to issue a policy.

PREMIUM PAYMENT

All eligible shipments must be reported, form EIB92-27, and premium paid by the 30th of the month following the date of shipment. If the insured fails to file any premium report, to declare any shipment or to pay any premium when due, Ex-Im Bank may, at its option, terminate or continue the policy and hold the insured liable for payment of premium.

OVERDUES AND CLAIMS

Exporters must report all insured buyers that fall into late payment situations on a monthly basis, form EIB92-27, after obligations in excess of \$100,000 become 90 days past due. In all cases, these reports should continue for as long as the overdue situation exists, or until proof of loss claim forms, EIB92-25, are submitted.

When claims are submitted, copies of all documents pertaining to the transaction, such as purchase orders, invoices, bills of lading, debt instruments and guarantees of third parties, should also be included for review. Claims may be filed 90 days after default and must be filed within 240 days of default. Ex-Im Bank will process claims within 60 days of receiving a satisfactorily completed and documented proof of loss.

ASSIGNMENT OF PROCEEDS

Subject to Ex-Im Bank approval, policy proceeds may be assigned to a financial institution. Thus, the policyholder can realize greater financial liquidity and flexibility in administering its foreign receivables portfolio.

To encourage financing, an enhanced agreement has been developed for financial institutions taking assignment of a Small Business insured's rights to any amount payable under the policy. If the assignee complies with its responsibilities, it will be protected from many defenses to nonpayment of a claim which ordinarily would be asserted.

MORE INFORMATION

Also see Fact Sheets on the: Small Business Environmental Policy EIB94-05
Small Business Y2K Policy EIB99-20

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